October 16, 2000

By Hand

Mary L. Cottrell, Secretary

Dept. Of Telecommunications and Energy

One South Station, 2nd Floor

Boston, MA 02110

Re: Massachusetts Electric Company and Nantucket Electric Company: D.T.E. Docket 00-67

Dear Secretary Cottrell:

This letter represents the reply comments of Massachusetts Electric and Nantucket Electric (together referred to as "Mass. Electric" or the "Company") in the above reference Standard Offer Docket.

Introduction

It is not easy for Mass. Electric to have to come before the Department to request such a significant increase in its Standard Offer rate while industry restructuring remains in its infancy. But the rise in Standard Offer costs has little to do with industry restructuring. Rather, it arises out of escalating fuel costs that impact everyone in the global economy. If restructuring had never occurred, Mass. Electric would undoubtedly have been before the Department in quarterly fuel clause proceedings, raising rates to keep up with the dramatic escalation in fuel costs. In that regard, the Department should recognize that the Standard Offer has provided substantial protection for customers. The combination of divestiture with the Standard Offer mechanism has already brought over $500 million of savings to Mass. Electric's customers in the first few years of restructuring. Recognition of this achievement should not get lost in the bad news of extraordinary fuel costs. Even with the proposed rate increases, the Standard Offer continues to provide customers with a significant measure of protection from market prices for electricity.

Paying a higher Standard Offer rate now will undoubtedly be difficult for many of the Company's customers. But ultimately, it will be in the public interest for Mass. Electric to commence recovery of its escalating Standard Offer costs on a current basis. Otherwise, the accumulation of significant deferrals (with interest) in the magnitude of $400 million will result in customers facing even greater and more dramatic rate increases at a later date. For that reason, it is imperative that the Department act now to match the rate to the actual cost of the service going forward.

Substantial Agreement Among Parties

It is important to recognize that all but one of the parties that filed comments are apparently in agreement on the fundamental issue of current cost recovery. Specifically, most parties appear to agree that it is appropriate and in the public interest for Mass. Electric to recover its actual current costs of Standard Offer Service on a current basis going forward. *See, e.g.*, Comments of AIM, p. 2; Comments of DOER, p. 1; and Comments of Mass. AG, p. 6 & n. 6; and Comments of Competitive Suppliers. For that

reason, the Department should not hesitate to approve the increase in the Standard Offer rate as soon as possible.

In addition, both the Attorney General and AIM have made requests that the Company offer financing plans to assist customers that might face hardship from the increase in rates. *See e.g.*, Comments of AIM, p. 3; and Comments of Mass. AG, p.7. The Company is committed to working with its individual customers on payment plans where the circumstances are warranted. The Company does this regularly with residential customers who are struggling to keep up with their bills. Similarly, the Company can work out payment problems with small commercial and industrial customers as the need arises. In that regard, the Company is willing to meet with AIM and the Attorney General to discuss various approaches.

Mitigation

The main issue of disagreement is whether the Company has an obligation to prove that it has mitigated the impact of the proposed increase pursuant to G.L. c. 164, § 1G(c)(3). The Company believes that § 1G is not applicable because the Company has shown that it has complied with the 15% rate reduction provisions of the law, consistent with the terms of its Restructuring Settlement ("Settlement") to which DOER and the Mass. Attorney General were parties and for which AIM offered its written support. *See* Mass. Electric Filing Letter, September 1, 2000. The Settlement contains a provision that permits the fuel payments to be recovered currently. The Department found the Settlement to be in substantial compliance with the law. Hence, there is no requirement for the Company to address the issue of mitigation before recovering its extraordinary fuel costs.

Even though the mitigation requirements of § 1G do not apply, the Company believes that it has nevertheless done everything reasonably possible to mitigate the effects of the rate increase. As pointed out by AIM, the Department has recently approved a long term settlement in Docket D.T.E. 99-47. That settlement has brought rate relief and long term rate stability for customers. In addition, New England Power Company has notified Mass. Electric and other parties to its Wholesale Restructuring Settlement that it is reviewing its contract termination charges ("CAC") to Mass. Electric, which could

subsequently result in lower transition charges for customers. As a result, a corresponding reduction in the transition charge may be before the Department before the end of this year. Accordingly, even if the mitigation rule urged by some of the parties applied, it presents no impediment to approving Mass. Electric's request.

DOER Analysis

Although Mass. Electric and DOER are in agreement that Mass. Electric should recover its current Standard Offer costs and such recovery is permissible under the law, DOER offers an analysis that arrives at the conclusion in a slightly different way. The Company's filing letter stated that extraordinary fuel costs should be taken into account when determining whether the inflation cap has been met. The DOER approach is similar, but much simpler. Specifically, DOER suggests that the fuel index payments be treated as an exclusion from the inflation cap. The Company believes the DOER approach is sensible and consistent with the Company's proposal. Accordingly, the Company has no objection to the analytical approach suggested by DOER.

Objections of the Low Income Group

The only objection to the Company recovering its current standard offer supply costs appears in the consolidated comments of Jerrold Oppenheim on behalf of several low income advocate groups ("Low Income Group"). The Low Income Group objects on three grounds: (1) that the Company has allegedly failed "to preserve the economic value of the electricity price provisions" of the statute; (2) that the increases allegedly fail to provide low income discounts comparable to those in effect prior to March 1, 1998; and (3) that the Department has failed to hold an adequate hearing. The Company believes that the position of the Low Income Group is without merit and will address each below.

First, the Low Income Group's assertion that the Company has failed to meet the requirements of the statute is plain wrong. As was discussed at length in the Company's original filing letter, the Company's increase is expressly permitted by the terms of its

Restructuring Settlement in D.P.U./D.T.E. 96-25. That Settlement expressly permits the Company to collect the fuel index payments over and above the fixed component of the Standard Offer rate. The Electric Utility Restructuring Act of 1997 did not invalidate the Settlement. To the contrary, the Act required the Department to determine whether the Settlement was in substantial compliance with the Act. The Department found it to be in substantial compliance in Docket 96-25-B.

Second, the Low Income Group's assertion that the Company has not maintained low income discounts "comparable" to those in effect prior to March 1, 1998 is factually wrong. The Company's low income rate contained a discount off the distribution component of its rates equal to 63.6%. The discount today off the distribution component of the Company's rates is 69.9%. *See* Exhibit 1 attached to this reply. Accordingly, the statutory requirement to retain a "comparable" discount has been met and exceeded.

Third, the Low Income Group's claim that the Department's process has been flawed does not state a basis for rejecting the Company's increase. In support of its procedural argument, the Low Income Group maintains that it did not receive responses as early as it would have liked and that not all filings have appeared on the Department's web site. Such matters may have presented inconveniences that could have been quickly remedied with a phone call. But they hardly rise to the level of procedural defect. Moreover, the assertion that no discovery was permitted is plain wrong. All parties were given an opportunity for discovery and a technical session was held that allowed any party to ask questions of the Company. In fact, the Company provided further discovery responses after the technical session.

Further, the Low Income Group maintains that this case should be treated like a "general rate increase" that requires formal hearings. The Company's request for an increase in the Standard Offer, however, is not a "general rate increase" that requires, by statute, a full set of hearings. Rather, the Company's request arises out of implementation of a pre-approved Restructuring Settlement and associated Standard Offer Adjustment tariff that permits the Company to recover its costs incurred for providing Standard Offer Service. Full hearings occurred at the time the Department approved the Restructuring Settlement and tariff. There is no legal requirement that full hearings be held each time that the

Settlement and tariff provisions are implemented. Accordingly, the Low Income Group's procedural complaint is without merit.

Conclusion

In conclusion, the Company's proposal to commence recovery of its Standard Offer costs on a current basis should be approved. It is consistent with the Company's Restructuring Settlement and the law and is otherwise in the public interest to prevent the accumulation of substantial deferrals.

To implement the Company's proposal, several options have been provided to the Department for the Standard Offer rate, depending upon the effective date chosen. These options appear in the Company's response to D.T.E. Request 2. It provides alternative Standard Offer rates for effective dates of November 1, December 1, or January 1. The Company urges the Department to approve an increase that goes into effect as early as possible, but has no objection to the adoption of any of the three dates, as policy reasons may dictate.

Sincerely,

Ronald T. Gerwatowski

Senior Counsel

c. Service List